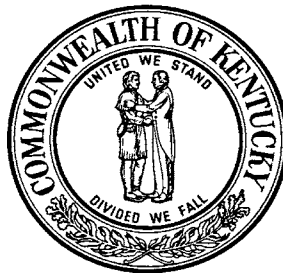


**REPORT OF THE AUDIT OF THE  
FORMER CALLOWAY COUNTY  
SHERIFF'S SETTLEMENT - 2002 TAXES**

**January 5, 2003**



**EDWARD B. HATCHETT, JR.**  
**AUDITOR OF PUBLIC ACCOUNTS**  
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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE FORMER CALLOWAY COUNTY SHERIFF'S SETTLEMENT - 2002 TAXES**

**December 31, 2002**

The Auditor of Public Accounts has completed the audit of the former Sheriff's Settlement - 2002 Taxes for the former Calloway County Sheriff as of January 5, 2003. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

#### **Financial Condition:**

The former Sheriff collected taxes of \$7,962,157 for the districts for 2002 taxes, retaining commissions of \$283,586 to operate the former Sheriff's office. The former Sheriff distributed taxes of \$7,660,005 to the districts for 2002 Taxes. Taxes of \$15,139 are due to the districts from the former Sheriff and refunds of \$712 are due to the former Sheriff from the taxing districts.

#### **Report Comments:**

- The Former Sheriff Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$1,972,125 To Protect Deposits
- The Former Sheriff Should Remit \$15,139 To The Taxing Districts
- Lacks Adequate Segregation of Duties



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**EDWARD B. HATCHETT, JR.**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Paul E. Patton, Governor  
Gordon C. Duke, Secretary  
Finance and Administration Cabinet  
Dana Mayton, Secretary, Revenue Cabinet  
Honorable Larry Elkins, Calloway County Judge/Executive  
Honorable Stan Scott, Former Calloway County Sheriff  
Honorable Larry W. Roberts, Calloway County Sheriff  
Members of the Calloway County Fiscal Court

Independent Auditor's Report

We have audited the former Calloway County Sheriff's Settlement - 2002 Taxes as of January 5, 2003. This tax settlement is the responsibility of the former Calloway County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the former Calloway County Sheriff's taxes charged, credited, and paid as of December 31, 2002, in conformity with the modified cash basis of accounting.



To the People of Kentucky  
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Honorable Larry W. Roberts, Calloway County Sheriff  
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In accordance with Government Auditing Standards, we have also issued our report dated April 17, 2003, on our consideration of the former Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Former Sheriff Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$1,972,125 To Protect Deposits
- The Former Sheriff Should Remit \$15,139 To The Taxing Districts
- Lacks Adequate Segregation of Duties

Respectfully submitted,



Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
April 17, 2003

CALLOWAY COUNTY  
 STAN SCOTT, FORMER COUNTY SHERIFF  
 FORMER SHERIFF'S SETTLEMENT - 2002 TAXES

January 5, 2003

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 1,171,911	\$ 1,890,472	\$ 2,907,553	\$ 1,451,449
Tangible Personal Property	187,418	239,159	340,469	418,321
Intangible Personal Property				101,683
Taxes Increased Through				
Erroneous Assessments	84	151	264	115
Franchise Corporation	81,194	103,021	159,022	
Additional Billings	472	791	1,561	587
Bank Franchises	87,837			
Adjusted to Sheriff's Receipt	20	51	6	31
Gross Chargeable to Sheriff	<u>\$ 1,528,936</u>	<u>\$ 2,233,645</u>	<u>\$ 3,408,875</u>	<u>\$ 1,972,186</u>
<u>Credits</u>				
Exonerations	\$ 4,124	\$ 7,129	\$ 11,315	\$ 5,296
Discounts	20,777	32,347	48,288	30,970
Discounts - Franchises	639	1,140	2,094	
Uncollected Taxes Transferred To				
Incoming Sheriff	145,625	236,697	396,290	189,967
Uncollected Franchise Corporation	18,131	18,595	12,061	
Total Credits	<u>\$ 189,296</u>	<u>\$ 295,908</u>	<u>\$ 470,048</u>	<u>\$ 226,233</u>
Taxes Collected	\$ 1,339,640	\$ 1,937,737	\$ 2,938,827	\$ 1,745,953
Less: Commissions *	57,222	71,055	80,818	74,491
Taxes Due	\$ 1,282,418	\$ 1,866,682	\$ 2,858,009	\$ 1,671,462
Taxes Paid	1,278,121	1,860,250	2,850,238	1,671,396
Refunds (Current and Prior Year)	564	961	1,838	776
Due Districts or (Refunds Due Sheriff)		**		
as of Completion of Fieldwork	<u>\$ 3,733</u>	<u>\$ 5,471</u>	<u>\$ 5,933</u>	<u>\$ (710)</u>

\* And \*\* See Next Page.

The accompanying notes are an integral part of the financial statement.

CALLOWAY COUNTY  
 STAN SCOTT, FORMER COUNTY SHERIFF  
 FORMER SHERIFF'S SETTLEMENT - 2002 TAXES  
 January 5, 2003  
 (Continued)

\* Commissions:

10% on	\$	10,000
4.25% on	\$	4,665,662
2.75% on	\$	2,938,827
1% on	\$	347,670

\*\* Special Taxing Districts:

Library District	\$	869
Health District		927
Extension District		360
Conservation District		126
Jail District		2,390
Fire District		801
Timber District		<u>(2)</u>
Due Districts or (Refund Due Sheriff)	\$	<u>5,471</u>

The accompanying notes are an integral part of the financial statement.

CALLOWAY COUNTY  
NOTES TO FINANCIAL STATEMENT

January 5, 2003

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The former Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the former Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The former Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of December 9, 2002, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$1,972,125 of public funds uninsured and unsecured.

CALLOWAY COUNTY  
 NOTES TO FINANCIAL STATEMENT  
 January 5, 2003  
 (Continued)

Note 2. Deposits (Continued)

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official as of December 9, 2002.

	<u>Bank Balance</u>
FDIC Insured	\$ 100,000
Collateralized with securities held by pledging depository institution in the county official's name	4,301,094
Uncollateralized and uninsured	<u>1,972,125</u>
Total	<u>\$ 6,373,219</u>

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2002. Property taxes were billed to finance governmental services for the year ended June 30, 2003. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 25, 2002 through January 5, 2003.

Note 4. Interest Income

The former Calloway County Sheriff earned \$1,413 as interest income on 2002 taxes. As of April 17, 2003 the former sheriff owes \$65 in interest to his fee account and overpaid interest to the school of \$33.

Note 5. Escrow Account

The former Calloway County Sheriff's Office maintains an Escrow Account for any unrefundable duplicate payments and unexplained receipts. According to KRS 393.110, the Sheriff's Office should properly report annually to the Treasury Department any unclaimed moneys. After seven years, if the funds have not been claimed, the funds should be submitted to the Kentucky State Treasurer. For the 2002 tax year, the former Sheriff's Escrow Account had a beginning balance of \$2,779 and earned interest of \$24 leaving an ending balance of \$2,803 as of January 5, 2003. These funds were transferred to the incoming Sheriff's office.

## COMMENTS AND RECOMMENDATIONS



CALLOWAY COUNTY  
STAN SCOTT, FORMER COUNTY SHERIFF  
COMMENTS AND RECOMMENDATIONS

January 5, 2003

STATE LAWS AND REGULATIONS:

- 1) The Former Sheriff Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$1,972,125 To Protect Deposits

On December 9, 2002, \$1,972,125 of the former Sheriff's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times.

*Former County Sheriff's Response:*

*None.*

- 2) The Former Sheriff Should Remit \$15,139 To The Taxing Districts

The former Sheriff owed the county \$3,733, the school district \$5,933, the library district \$869, the health district \$927, the extension district \$360, the conservation district \$126, the jail district \$2,390, and the fire district \$801 as of April 17, 2003. The former Sheriff was also due a refund of \$2 from the timber district and \$710 from the state. We recommend that the former Sheriff settle with the taxing districts.

*Former County Sheriff's Response:*

*None.*

INTERNAL CONTROL:

Lacks Adequate Segregation Of Duties

The former Sheriff's office has a lack of segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions the official has limited options for establishing an adequate segregation of duties. The former Sheriff could have implemented compensating controls to offset this internal control weakness.

*Former County Sheriff's Response:*

*None.*

PRIOR YEAR:

In the prior year, the former Sheriff did not have a written agreement to protect deposits and lacked an adequate segregation of duties in his office. In the current year, the former Sheriff did have a written agreement to protect his deposits, however the lack of an adequate segregation of duties was not corrected.

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REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





**EDWARD B. HATCHETT, JR.**  
**AUDITOR OF PUBLIC ACCOUNTS**

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**Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards**

We have audited the former Calloway County Sheriff's Settlement - 2002 Taxes as of December 31, 2002, and have issued our report thereon dated April 17, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the former Calloway County Sheriff's Settlement - 2002 Taxes as of December 31, 2002 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Former Sheriff Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$1,972,125 To Protect Deposits
- The Former Sheriff Should Remit \$15,139 To The Taxing Districts



Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Calloway County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. A reportable condition is described in the accompanying comments and recommendations section.

- Lacks Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,



Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
April 17, 2003

